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August 21, 2006

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
P.O. Drawer 11649
Columbia, South Carolina 29211

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COMMISSION

IN RE: Docket No. 2005-359-C Palmetto Rural Telephone Cooperative, Inc. and
Palmetto Telephone Communications, LLC - Request for Waiver of Local Rates

Mr. Terreni:

The Office of Regulatory does not oppose the approval of the requests of Palmetto Rural Telephone Cooperative, Inc. (Palmetto Rural) and Palmetto Telephone Communications, LLC (PTC) to waive local exchange rates for its customers during the month of December, 2006. ORS does recommend a qualified approval consistent with Commission's treatment of this type of request in previous years. Since Palmetto Rural Telephone Cooperative, Inc. is regulated on a rate of return basis, ORS recommends that Palmetto Rural's request be qualified to provide for the imputation of revenues for any waived rates during an earnings review or a rate proceeding. In other words, if Palmetto Rural were to file a rate case proceeding with a test year including the month of December, 2006, ORS recommends that the revenues associated with the waived rates and charges be imputed for rate making purposes. Again, this treatment is consistent with prior Commission's decisions for rate of return companies seeking a waiver of local rates.

For both Palmetto Rural and PTC, ORS does have concerns about the waiver of retail rates with regard to their impact on intrastate universal service fund reporting and gross receipts reporting. For universal service funding, the size of a carrier's obligation to the intrastate universal service fund is a function of the total retail revenues reported on an annual basis from all telecommunications providers in South Carolina. To ensure a competitively neutral intrastate universal service fund, ORS recommends that any company waiving retail rates be required to track and report those foregone revenues for

purposes of determining the company's obligation to the intrastate universal service fund. A similar concern exists for gross receipts reporting.

Gross receipt for telegraph and telephone companies is defined in Section 58-1-40(3) of the South Carolina Code of Laws. In this definition, the gross receipts are required to be reported "whether actually received or not ..." In order to balance the interest of all telephone utilities and to ensure that all carriers report gross receipts uniformly, ORS recommends that any foregone revenues be tracked and included when reporting gross receipts.

Similar recommendations were addressed and adopted last year by the Commission in its Order No. 2005-683 for the same type request by Palmetto Rural and PTC.

In summary, ORS does not oppose the requests of Palmetto Rural and PTC to waive local exchange rates during the month of December 2006 provided:

- (1) that both companies be required to track all foregone intrastate revenues;
- (2) that those intrastate revenues be imputed to the company for use during any earnings or rate proceeding where December 2006 is included in the test year;
- (3) that the companies be required to report those foregone revenues in calculating the companies' obligations to the universal service fund; and,
- (4) that the companies report any foregone intrastate revenues in reporting of gross receipts.

Should you have any questions concerning this matter, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. McDaniel", written over a horizontal line.

James M. McDaniel

C: Mr. H. J. Dandridge, III, Manager, Palmetto Rural Telephone Cooperative
Florence Belser, General Counsel, ORS
Katie Morgan, Director – Telecommunications, Transportation, Water, Wastewater
Jay Jashinsky, Director – Audit